**SALES AND SALES RETURN**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical Procedures |  | Occurrence  (for Overstatement)  Completeness  (for Understatement) | * Compare Sales of this year with Sales of last year as well as with budgeted and Industry average. Investigate unusual difference. * Compare G.P. Ratio of this year with last year as well as budgeted and Industry average. Investigate unusual difference. * Review a reconciliation of Inventory (opening + Produced disposed = closing) and compare units sold with production record * Develop an expectation about Sales to test the reasonableness of Sales (by multiplying number of units sold with price per unit). |
| Tests Of Details |  | Occurrence | * Select a sample of recorded transactions from Sales Journal, and vouch for complete audit trail i.e. from recording Journal to initiative document e.g. G.L. Sales Invoice, Delivery Note, Customer Order. |
|  | Completeness | * Select a sample of Shipping Documents, and vouch for complete audit trail i.e. from Shipping documents to Sales Invoice, recording in GL to obtain evidence that all goods dispatched have been accounted for. * Review reconciliation between Individual Sales Invoices and Total posted in Debtors' Control Account. |
|  | Accuracy | * Recalculate amount of bill for a sample of sales invoices by using quantity from Dispatch Note, Rate from authorized rate list, and also check mathematical accuracy of invoices. |
|  | Classification | * Review ledger for any unusual debits/credits to identify any misclassification. * Examine a sample of sales invoices for proper classification into revenue accounts. |
|  | Cut off | * Perform Cut off Test i.e. Select a sample of sales invoice just before and after year end and compare dates of shipment with the dates they were recorded in the sales journal. |

**PURCHASES AND PURCHASE RETURN**

|  |  |  |  |
| --- | --- | --- | --- |
| **Analytical** |  | Occurrence  (for Overstatement)  Completeness  (for Understatement) | * Comparison of GP ratio with last year, budgeted and industry average * Comparisons of purchases are made by months, regions and product basis, also compare with last year's figures. * Prepare a reconciliation of Inventory (opening + Produced disposed - closing) and compare units purchased with production record |
| **Tests of Details** |  | Occurrence | * Select a sample of recorded transact ions from Purchase Journal, and vouch for complete audit trail i.e. from recording in Journal to initiative documents e.g. Purchase Invoice, GRN, PO, Requisition. |
|  | Completeness | * Select a sample of GRNs, and vouch for complete audit trail i.e. from GRN to Vendor's Invoice and recording in G.L to obtain evidence that all goods received have been accounted for. * Review reconciliation between Individual Purchases Invoices and Total posted in Creditors' Control Account |
|  | Accuracy | * Recalculate amount of bill for a sample of sales invoices by using quantity from GRN, Rate from authorized rate list, and also check mathematical accuracy of invoices. |
|  | Classification | * Review ledger for any unusual debits/credits to identify any misclassification. * Examine a sample of sales invoices for proper classification into purchase accounts. * Vouch purchases account and fixed assets account for any unusual entries to identify any misclassification (e.g. inventory recorded as fixed assets and vice versa) |
|  | Cut off | * Perform Cut off Test i.e. Select a sample of vendors' invoices just before and after year end and compare dates of GRN with the dates of recording in Purchase journal. |

**COST OF SALES**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Occurrence  (for Overstatement)    Completeness  (for Understatement) | * Compare Cost of Sales of this year with Cost of Sales of last year as well as with budgeted and Industry average. Investigate unusual difference. * Perform Vertical Analysis i.e. compare Cost of Sales as a percentage of Total Sales with last year as well as with budgeted and industry average. Investigate unusual difference. |
| Tests of Details |  | Occurrence | * Select a sample of recorded cost of sales entries and vouch to supporting documentation. |
|  | Completeness | * Select a sample of basic transaction documents (such as production reports) and determine whether the related cost of goods sold was recorded. |
|  | Accuracy | * Determine whether the accounting costing method used by the client (such as FIFO, AVCO, Standard cost) was applied properly. * Compute the ratio of cost elements (such as labor, material) to total cost of goods sold and compare this ratio to that for prior years. |
|  | Classification | * Review ledger for any unusual debits/credits to identify any misclassification |
|  | Cut off | * Ensure cost of sales is recorded considering cut off based on purchases and sales. |

**DEPRECIATION**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Occurrence  (for Overstatement)    Completeness  (for Understatement) | * Compare Depreciation of this year with Depreciation of last year as well as with budgeted and Industry average. Investigate unusual difference. * Compare depreciation rate with prior years and industry practice. * Develop an expectation about Depreciation, to test the reasonableness of Depreciation (by multiplying rate of depreciation to depreciable amount). |
| Tests of Details |  | Occurrence | * Test whether allocation of depreciation expense between factory, selling and admin expenses is on reasonable basis. |
|  | Completeness | * Review Fixed Assets Register to check whether depreciation has been charged on all fixed assets. |
|  | Accuracy | * For revalued assets, ensure depreciation is charged on revalued amounts. |
|  | Classification | * Review ledger for any unusual debits/credits to identify any misclassification |
|  | Cut off | * Test that depreciation on additions and disposals during the year is appropriately calculated. |

**BAD DEBTS**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Occurrence  (for Overstatement)    Completeness  (for Understatement) | * Compare Bad debts of this year with Bad debts of last year as well as with budgeted and Industry average. Investigate unusual difference. * Perform Vertical Analysis i.e. compare Bad debts as a percentage of Total Sales with last year as well as with budgeted and industry average. Investigate unusual difference. |
| Test of Details |  | Occurrence | * Perform Vouching i.e. Select a sample of recorded transactions from Bad Debts, and vouch for complete audit trail i.e. Approval of write offs. |
|  | Completeness | * Review aging of receivables to identify overdue balances and inquire about their status. |
|  | Accuracy | * Scan account of bad debts for unusual credits in the account. |
|  | Classification | * Review ledger for any unusual debits/credits to identify any misclassification |
|  | Cut off | * Perform Cutoff Test i.e. check last document number of transactions in this year and first document number of transactions in next year. |

**PAYROLL**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical Procedures |  | Occurrence  (for Overstatement)    Completeness  (for Understatement) | * Compare Payroll expense of this year with Payroll expense of last year as well as with budgeted and Industry average. Investigate unusual difference. * Perform Vertical Analysis i.e. compare Payroll expense as a percentage of Total Sales with last year as well as with budgeted and industry average. Investigate unusual difference. * Develop an expectation about Salaries, to test the reasonableness of Salaries (by multiplying salary of base month to number of months and considering effect of joiners, leavers and increments). |
| Tests of Details |  | Occurrence | 1. Examine T accounts of payroll related expenses to obtain evidence whether all entries therein are supported by Salaries Register and related documents.  2.Select a sample of payments to employees from the payroll register and compare each selected transaction to the related documents and records, and examine   * Evidence in support of authorisation of pay rate (i.e. Personal Files) * Evidence in support of authorization of time (i.e. approved time cards or attendance records) * Evidence in support of authorization of payroll deduction, (i.e. Personal Files) * Mathematical accuracy of the transaction. |
|  | Completeness | * Review the period end accrual of payroll expenses. |
|  | Accuracy | * On Sample Basis, check calculation of salary is based on correct hours and rates and Check Mathematical Accuracy of salary sheet. |
|  | Classification | * Trace posting of Salary Register to relevant accounts in G.L. * Review of Payroll Accounts for unusual items. |
|  |  | Cut off | * Perform Cut off Test i.e. Trace a sample of time cards/sheets before and after period end to the appropriate "payroll register", and trace "payroll register" to the general ledger to verify payroll transactions are recorded in the proper period |

**TAX EXPENSE**

|  |  |  |  |
| --- | --- | --- | --- |
| Tests of Details |  | Occurrence | * Check whether entity is involved in taxable activities according to Income Tax Ordinance. |
|  | Completeness | * Ensure that tax credit/rebates have been taken into account. |
|  | Accuracy | * Check the calculation of taxable income in accordance with Income Tax Ordinance. * Check assessment orders of prior years. |
|  | Cut off | * Ensure proper cut off in Tax Year in recording tax expense. |
|  | Classification | * Check whether classification between items current Tax and deferred tax are appropriate. * Check whether classification between items of Temporary differences and permanent differences are appropriate. |

**INTEREST EXPENSE**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Occurrence  (for Overstatement)  Completeness  (for Understatement) | * Compare Interest Expense of this year with last year and investigate difference. |
| Tests of Details |  | Occurrence | * Relate all interest expenses to their relevant Loans and check their reasonableness. |
|  | Completeness | * Check whether interest expense has been recorded on all debts. |
|  | Accuracy | * Recalculate interest expense using details from Loan Agreement. |
|  | Cut off | * Check whether interest expense has been recorded in the correct period.   Review Debt Repayment/Lease Amortization Schedule. |
|  | Classification | * Check the classification of interest expense e.g. whether to be expensed or capitalized * Review criteria of leases for classification between Operating Lease and Finance Lease. |

**OTHER OPERATING EXPENSES**

|  |  |  |  |
| --- | --- | --- | --- |
| **Analytical** |  | Occurrence  (for Overstatement)    Completeness  (for Understatement) | Perform analytical procedures: e.g.   * Develop an expectation about expense, to test its reasonableness * Compare actual expense with last year's expenses. Investigate unusual differences. |
| **Tests of Details** |  | Occurrence | Select a sample of transactions from expense account and perform following procedures:   * Check supporting documents * Check mathematical accuracy * Check acknowledgement of receipt of goods/services. * Check approval and authorisation (e.g. Invoices) * Check tax deduction * Check evidence of payment (e.g. copy of cheque, receiving signature, and/or payment from bank statement) * Check supporting duly stamped "Processed" or "Paid". * Ensure that the expense relates to the year and business |
|  | Completeness | * Review the period end accrual of expenses. * Search for unrecorded liabilities. |
|  | Accuracy | * Recalculate invoices and ensure preparation of vouchers is accurate on the basis of invoices. * Test that calculation of expenses is based on reasonable rates based on market rates. |
|  | Cut off | * From selected sample of transactions, check date of acknowledgement of receipt of goods/services. |
|  | Classification | * Check allocation of payment between expense and prepayments * Scan accounts in G.L. for unusual transactions e.g. credit items in expense accounts, Larger amounts in Repair and Maintenance Account etc. |

**OTHER INCOME**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Occurrence  (for Overstatement)    Completeness  (for Understatement) | * Perform analytical procedures e.g. Compare actual income with last year's income. Investigate unusual differences. |
| Tests of Details |  | Occurrence | * Select a sample of transactions from income account and perform following procedures: * Check approval and authorisation (e.g. Agreements for rent or sale) * Check evidence of receipt (e.g. copy of cheque, payment into bank statements) |
|  | Completeness | * Ensure that income is recognized for all relevant transactions (keeping in view nature of activities in which entity is involved e.g. Interest, Rent etc). |
|  | Accuracy | * Recalculate income to be recorded (e.g. Book Value of Asset, No. of months Property was used. Number of months balance was kept in bank account) |
|  | Cut off | * Ensure that income relating to current year only is recognized. |
|  | Classification | * Ensure that classification between operating income and non operating income is appropriate. |

**FIXED ASSETS**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Completeness  (for Understatement) | * Compare Fixed Assets of this year with Fixed Assets of last year as well as with budgeted and Industry average. Investigate unusual difference. * Perform Vertical Analysis i.e. compare Fixed Assets as a percentage of Total Assets with last year as well as with budgeted and industry average. Investigate unusual difference. |
| Tests of Details |  | Existence | * Obtain "Fixed Assets' Schedule", "schedule of additions and deletions" and "Fixed Assets' Register" and perform following procedures: * Check mathematical accuracy. * Agree schedules with each other and with balances in general ledger * Physically examine the existence of major fixed assets by coding or other identification, (list to floor) |
|  | Completeness | * Physically examine a sample of fixed assets and trace them into the fixed assets register (list to floor). * Ensure that Fixed Assets' Register is reconciled to closing balances in General Ledger. * Review the repairs and maintenance expense account for items of a capital nature. |
|  | Valuation and Allocation | Evaluate fixed assets for significant write-offs or impairments by performing procedures like:   * Obtain evidence about condition of fixed assets during physical verification (i.e. whether fixed assets have been damaged or obsolete). Identify other event or change In circumstance indicating impairment * Examine client documentation supporting impairment of write off. * Verify impairment loss by determining recoverable amount and compare to carrying value.   Test depreciation expense for a sample of capital assets:   * Determine whether appropriate depreciation rate is applied * Determine reasonableness of useful lives and residual values. * Recalculate depreciation expense. * Confirm fully depreciated assets are separately identified and are not being depreciated. * Ensure that depreciation policy is appropriate in accordance with AFRF and consistent with last year and industry. * Check that depreciation on assets purchased starts from date of purchase and depreciation on assets sold stops on date of sale. Also check calculation of accumulated depreciation on disposals. |
|  |  | Rights and Obligation | * Examine title documents (e.g. Title documents of Property. Vehicle Registration Documents. Lease agreements) of fixed assets for proof of ownership. * Inquire of management about liens on capital assets, and review the terms of mortgages. |

**INTANGIBLES**

|  |  |
| --- | --- |
| Goodwill | * Agree the consideration to sales agreement by inspection. * Consider whether asset valuation on is reasonable. * Agree that the calculation is correct by recalculation. * Review the impairment review and discuss with management. * Ensure valuation of goodwill is reasonable/there has been no impairment not adjusted through discussion with management. |
| Research and development costs | * Confirm that capitalised development costs conform to IAS 38 criteria by inspecting details of projects and discussions with technical managers. * Confirm feasibility and viability by inspection of budgets. * Recalculate amortisation calculation, to ensure it commences with production/is reasonable. * Inspect invoices to verify expenditure incurred on R&D projects. |
| Other  Intangibles | * Agree purchased intangibles to purchase documentation agreement by Inspection. * Inspect specialist valuation of intangibles and ensure it is reasonable. * Review amortisation calculations and ensure they are correct by recalculation. |

**INVENTORY**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Overstated/ understated inventory | * Compare Inventory of this year with Inventory of last year as well as with budgeted and Industry average. Investigate unusual difference. * Compare GP. Ratio of this year with last year as well as budgeted and Industry average. Investigate unusual difference. * Compare Inventory Turnover Ratio of this year with last year as well as budgeted and Industry average. Investigate unusual difference. * Compare inventory balances by category (i.e. raw material, work in process, and finished goods) for the current year with the prior year. |
| Test s of Details |  | Existence | * Obtain a listing of Inventory's balance and observe count of physical inventory (list to floor) |
|  | Completeness | * Obtain a listing of Inventory's balance and observe count of physical inventory (floor to list) * Ensure that goods sent on consignment basis and goods sent on 'sale on approval' basis are included in Inventory. * Ensure that Physical Balance of Inventory is reconciled to balances in Perpetual Records. Review Reconciliation for unusual items. |
|  | Valuation and Allocation | Cost:   * Inquire management about valuation method and determine whether it is appropriate in accordance with AFRF and consistent with last year. * Check calculation of Costing method on sample items of Inventory. * Investigate unusual differences in Actual Cost, Standard Cost and check disposition of Variances.   Net Realisable Value:   * Inquire management about estimated selling price of inventory, cost of completion and cost to make sale. Check management's calculation considering understanding of entity and subsequent events. * Obtain evidence about condition of inventory during physical verification (i.e. whether inventory has been damaged or obsolete) * Review aged inventory reports and identify any slow moving goods, discuss with management why these items have not been written down. * Inquire of management concerning obsolete, slow moving, or excess inventory. |
|  | Rights and Obligation | * Ensure that goods held on consignment basis and goods held on 'sale on approval' basis are NOT included in Inventory. |

**BANK BALANCE**

|  |  |  |  |
| --- | --- | --- | --- |
| Tests of Details |  | Existence | Obtain a list of all bank accounts along with closing balances and perform following procedures:   * Check mathematical accuracy. * Agree closing balances to the General Ledger. * Review the summary for any possible omission * Obtain confirmation for all bank balances with financial institutions (standard bank confirmation). |
|  | Completeness | * Include bank accounts with small balances or accounts closed during the year for confirmation letters. * Review reconciliation between balance of General Ledger (Bank Account) and Bank Statement. and * verify mathematical accuracy * agree balances with bank statement and general ledger * trace reconciling items into subsequent month's bank statement * for untraced items examine supporting documentation |
|  | Valuation & Allocation | * Review ledger for any unusual debits/credits lo identify any misclassification |
|  | Rights and Obligations | * Review the bank confirmation for evidence of loans and collateral. * Check any lien on balance |

**DEBTORS**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Existence & Completeness | * Comparison of G.P. ratio with last year and industry average * Comparison of Receivable Turnover Ratio & Debtors' Age with Past and Industry averages * Comparison of bad debts expense as a %age of sales with Past and Industry averages |
| Tests of Details |  | Existence | * Send confirmation requests to a sample of debtors and perform follow up procedures. * Vouch selected amounts from the list of balances with supporting documentation e.g. Dispatch note etc. |
| Completeness | * Review reconciliation between balance of General Ledger (Debtors' Control Account) and Subsidiary Ledger (Sales Ledger). Select debtors with small or zero balances for confirmation. * Investigate and obtain explanation for long standing balances. |
|  | Valuation and Allocation | * Obtain invoice wise breakup of individual suppliers and re­calculate the total outstanding amount. * Review accounts receivable ledger for any unusual debits/credits to identify any misclassification (e.g. receivables or long term receivables which should be disclosed separately or debtors with credit balances) * Perform following procedures to determine adequacy of provision for bad debts: * Obtain and review aging of receivables. * Ensure that policy of provision for bad debts is consistent with past practice, industry practice and current economic conditions. * Calculate estimate for provision using prior relations of bad debts and sales, taking account of current economic events. * Examine Cash Receipts and Credit Notes subsequent to year end. |
|  | Rights and Obligation | * Inquire management whether any receivables have been sold, discounted, or hypothecated. * Review bank confirmations, loan agreements, and minutes of the BOD meetings for indications of whether debtors have been sold, factored, discounted, or pledged as collateral. * Examine receipts subsequent to year end. |

**CASH BALANCE**

|  |  |  |  |
| --- | --- | --- | --- |
| Tests of Details |  | Existence | * Perform cash count at year end. |
|  | Completeness | * Review reconciliation between balance of General Ledger (Cash A/C) and Physical Balance. * Review cut off of cash receipts and cash payments to ensure closing balance represents correct figure of year end. |
|  | Valuation & Allocation | * Review ledger for any unusual debits/credits to identify any misclassification |
|  | Rights and Obligation | * Ensure cash is under proper lock and key and in custody of entity. |

**ACCRUED ASSETS**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Existence & Completeness | * Compare current year balances in accruals with prior years' balances and inquire unusual differences. * Test reasonableness of accrual balances. |
| Tests of Details |  | Existence | * Vouch selected amounts from the list of accruals, with supporting documentation e.g. Rent agreements etc. |
|  | Completeness | * Ensure that income is recognized for all relevant transactions (keeping in view nature of activities in which entity is involved e.g. Interest, Rent etc). |
|  | Rights and Obligations | * Examine whether accrued assets have been received subsequently. Review documents to determine entity is legally obliged to receive the amount. |
|  | Valuation and Allocation | * For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct |

**LONG TERM LOAN**

|  |  |  |  |
| --- | --- | --- | --- |
| Tests of Details |  | Existence | * Confirm details and outstanding balance directly with lender/banker. |
|  | Rights and Obligations | * Examine Loan/Lease Agreements. |
|  | Completeness | * inquire of management for off balance sheet financing e.g. * Repurchase Agreements or Resale Agreements. * Examine Large payments for possible debt transactions. * Review payments for interest expense for possible debt transactions. |
|  | Valuation and Allocation | * Recalculate amortization of discount or premium. * Review Debt Re payment/ Lease Amortization Schedule. |

**SHARE CAPITAL & RESERVES (STATEMENT OF CHANGES IN EQUITY)**

**SHARE CAPITAL**

* Agree the authorised share capital with the statutory documents governing the company's constitution.
* Agree changes to authorised share capital with properly authorised resolutions.

**ISSUE OF SHARES**

* Verity any issue of share capital or other changes during the year with general and board minutes
* Ensure issue or change is within the terms of the constitution, and directors possess appropriate authority to issue shares.
* Confirm that cash or other consideration has been received or receivable(s) is included as called-up share capital not paid.

**TRANSFER OF SHARES and Movements**

* Verity transfers of shares by reference to:
  + Correspondence
  + Completed and stamped transfer forms
  + Cancelled share certificates
  + Minutes of directors' meeting
* Review the balances on shareholders' accounts in the register of members and the total list with the amount of issued share capital in the general ledger.
* Agree dividends paid and proposed pre year-end to authority in minute books and reperform calculation with total share capital issued to ascertain whether there are any outstanding or unclaimed dividends.
* Agree dividend payments with documentary evidence (say, the returned dividend warrants).
* Test that dividends do not contravene distribution provisions by reviewing the legislation.
* Inspect tax returns to insure that imputed tax has been accounted for to the taxation authorities and correctly treated in the accounts.
* Agree movements on reserves to supporting authority.
* Ensure that movements on reserves do not contravene the legislation and the
* company's constitution by reviewing the legislation
* Confirm that the company can distinguish distributable reserves from those that are non-distributable
* Ensure appropriate disclosures of movements on reserves are made in the company's accounts by Inspection of the financial statements.

**CREDITORS**

|  |  |  |  |
| --- | --- | --- | --- |
| Analytical |  | Existence  (for Overstatement)  Completeness  (for Understatement) | * Comparison of GP. ratio with last year and industry average * Comparison of Payable Turnover Ratio & Creditors' Age with Past and Industry averages * Compare current year balance with prior years' balances (total and party wise). |
| Tests of Details |  | Existence | * Send confirmation requests to selected creditors and perform follow up procedures. * Vouch selected amounts from the list of balances with supporting documentation e.g. suppliers' invoices. |
|  | Completeness | * Review reconciliation between balance of General Ledger (Creditors' Control Account) and Subsidiary Ledger (Purchases Ledger). * Select debtors with small or zero balances in the confirmation process. * Investigate and obtain explanation for long standing balances. * Perform "Omitted Liabilities Test" or "'Search for unrecorded liabilities" |
|  | Valuation and Allocation | * Obtain invoice wise breakup of individual suppliers and re­calculate the total outstanding amount * Review accounts payable ledger for any unusual debits/credits to identify any misclassification (e.g. payables or long term liabilities which should be disclosed separately or creditors with debit balances) |
|  | Rights and Obligation | * Examine payments subsequent to year end. |

**ACCRUED LIABILITIES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Analytical |  | Existence  (for Overstatement)  Completeness  (for Understatement) |  | * Compare current year balances in accruals with prior years' balances and inquire unusual differences. * Test reasonableness of accrual balances. |
| Analytical Procedures |  | Existence |  | * Vouch selected amounts from the list of accruals, with supporting documentation e.g. utilities bills, salary sheets etc, |
|  | Completeness |  | * Review the period end accruals of expenses includes necessary items e.g. Salaries accrual. Accruals for Utility bills, Withholding tax payable, Provision for Warranty etc. * Perform "Omitted Liabilities Test" (or "Search for unrecorded liabilities"). |
|  | Rights and Obligations |  | * Examine whether accrued liabilities have been paid subsequently. * Review documents to determine entity is legally obligated to pay the liability and obligation recorded is as per authorized plans (e.g. pension/gratuity plans). |
|  | Valuation and Allocation |  | * For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct |

**PROVISION FOR TAX EXPENSE**

|  |  |  |  |
| --- | --- | --- | --- |
| Tests of Details |  | Existence | * Obtain legal and tax status of entity from tax consultant. * Check whether temporary differences in tax and accounting base of assets &liabilities exist. |
|  | Rights and Obligations | * Obtain information from tax consultant regarding application of relevant provisions of Income Tax Ordinance. |
|  | Completeness | * Inquire if there were any disputes with tax authorities which may affect tax payable. * Check whether advance taxes paid on utilities bills, banking transactions etc has been taken into account. * Ensure That all temporary differences are accounted for to calculate deferred tax. |
|  | Valuation and Allocation | * Check that Tax liability has been calculated using applicable tax rates. * Check that Deferred Tax has been calculated using applicable tax rates in relevant years. * Check whether company is able to utilize deferred tax asset against future taxable profits. |

**SALES AND SALES RETURN**

|  |  |  |  |
| --- | --- | --- | --- |
| **Control Objective** | **Controls by Management** | **Test of Controls** | |
| **Occurrence and Existence** | | | |
| One person is not responsible for taking orders, recording sales and receiving payment. | * Segregation of duties | | * Observe and evaluate whether proper segregation of duties is operating |
| Recorded sales transactions represent goods shipped. | * Sales recorded only with approved sales order form and shipping documentation. | | * Test a sample of sales invoices for authorised sales order form and shipping documentation. * Examine application controls for authorisation. |
| * Accounting for numerical sequences of invoices. | | * Review and test entity’s procedures for accounting for numerical sequences of invoices. |
| * Monthly customer statements sent out and customer queries and complaints handled independently. | | * Review entity’s procedures for sending out monthly statements and dealing with customer queries and complaints. |
| Goods and services are only supplied to customers with good credit ratings. | * Authorisation of credit terms to customers (senior staff authorisation, references/credit checks for new customers, regular review of credit limits) | | * Review entity’s procedures for granting credit to customers. |
| * Authorisation by senior staff required for changes in other customer data such as address etc. | | * Examine a sample of sales orders for evidence of proper credit approval by the appropriate senior staff member. |
| * Orders not accepted unless credit limits reviewed first | | * Examine application controls for credit limits. |
| * Goods and services are provided at authorised prices and on authorised terms. * Customers are encouraged to pay promptly. | * Authorised price lists and specified terms of trade in place. | | * Compare prices and terms on a sample of sales invoices to the authorised price list and terms of trade. * Examine application controls for authorised prices and terms. |
| **Completeness** | | | |
| All revenue relating to goods dispatched is recorded. | * Accounting for numerical sequences of invoices. | * Review and test entity’s procedures for accounting for numerical sequences of invoices. | |
| All goods and services sold are correctly invoiced. | * Shipping documentation is matched to sales invoices. | * Trace a sample of shipping documents to the sales invoices and ledger. | |
| * Sales invoices are reconciled to the daily sales report. | * Review a sample of reconciliations performed | |
| * An open-order file is maintained and reviewed regularly. | * Inspect the open order file for unfilled orders. | |
| **Accuracy** | | | |
| All sales and adjustments are correctly journalised, summarised and posted to the correct accounts. | * Sales invoices and matching documents required for all entries | * Vouch recorded sales to supporting documents. | |
| **Cut off** | | | |
| Transactions have been recorded in the correct period. | * All shipping documentation is forwarded to the invoicing section on a daily basis. | * Compare dates on sales invoices with dates of corresponding shipping documentation. | |
| * Daily invoicing of goods shipped | * Compare dates on sales invoices with dates recorded in the sales ledger | |
| **Classification** | | | |
| All transactions are properly classified in accounts | * Chart of accounts in Place Codes in place for different types of products or services | * Review sales ledger for proper classification. 􀁸 Examine a sample of sales invoices for proper classification | |

**PURCHASES AND PURCHASE RETURN**

|  |  |  |
| --- | --- | --- |
| **Control Objective** | **Controls by Management** | **Test of Controls** |
| **Occurrence and existance** | | |
| Recorded purchases represent goods and services received. | * Authorisation procedures and policies in place for ordering goods and services. | * Inspect policies and procedures and inquire about them. |
| * Segregation of duties. | * Observe and evaluate segregation of duties |
| * Purchase orders raised for each purchase and authorised by appropriate senior personnel. | * Examine a sample of purchase orders to ensure they have been appropriately authorised. * Review the delegated list of authority for purchases. |
| * Approved purchase order for each receipt of goods | * For a sample of orders, examine the goods received note (GRN) and match it to the order. |
| * Staff receiving goods check them to the purchase order | * Observe receipt of goods by staff to confirm whether the check is done |
| * Stores clerks sign for goods received. | * Inspect a sample to confirm whether stores staff undertake this check. |
| * Purchase orders and GRNs are matched with the suppliers’ invoices | * Examine supporting documentation for a sample of invoices |
| **Completeness** | | |
| All purchase transactions that occurred have been recorded. | * Purchase orders and GRNs are matched with the suppliers’ invoices. | * Examine supporting documentation for a sample of invoices |
| * Periodic accounting for prenumbered GRNs and purchase orders. | * Review entity’s procedures for accounting for prenumbered documents. |
| * Independent check of amount recorded in the purchase journal | * Examine application controls. * Examine documentation for evidence of this check. |
| **Accuracy, classification and valuation** | | |
| Purchase transactions are correctly recorded in the accounting system. | * Purchase orders and GRNs are matched with the suppliers’ invoices | * Examine supporting documentation for a sample of invoices |
| * Mathematical accuracy of the supplier’s invoice is verified. | * Recalculate the mathematical accuracy of a sample of suppliers’ invoices. |
| * Amount posted to general ledger is reconciled to the purchases ledger. | * Review reconciliations for evidence of this check. |
| * Chart of accounts in place. | * Review purchases journal and general ledger for reasonableness. |
| **Rights & Obligations** | | |
| Recorded purchases represent the liabilities of the entity. | * Purchase orders and GRNs are matched with the suppliers’ invoices. | * Examine supporting documentation for a sample of invoices. |
| **Cut off** | | |
| Purchase transactions are recorded in the correct accounting period. | * All goods received reports forwarded to accounts payable department daily. | * Compare dates on reports to dates on relevant vouchers. |
|  | * Procedures in place that require recording of purchases as soon as possible after goods/services received. | * Compare dates on vouchers with dates they were recorded in the purchases journal |

**INVENTORIES**

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| **Control Objective** | **Controls by Management** | **Test of Controls** |
| **Existence and Occurrence** | | |
| All inventory movements are authorised and recorded. | * Prenumbered documentation such as GDNs and GRNs in use. | * Review documentation in use. |
| * Reconciliations of inventory records with general ledger | * Review a sample of reconciliations to confirm they are performed and then reviewed by an independent person |
| * Segregation of duties | * Observe and evaluate proper segregation |
| Inventory included on the statement of financial position physically exists. | * Physical safeguards in place to ensure inventory is not stolen. | * Review security systems in place (eg locked warehouses, CCTV etc). |
| * Separate responsibilities for maintenance of records and custodianship. | * Review policies and procedures in place; discuss procedures with relevant staff. |
| * Inventory counted regularly. | * Review procedures for counting inventory. * Attend inventory count. |
| **Rights and Obligations** | | |
| Inventory records only include items that belong to the entity. | * Procedures in place to include inventory held at third parties and exclude inventory held on consignment for third parties. | * Review entity’s procedures relating to consignment inventory |
| **Completeness** | | |
| All purchases and sales of inventory have been recorded in the accounting system. | * Procedures in place to include inventory held at third parties and exclude inventory held on consignment for third parties. | * Review entity’s procedures relating to consignment inventory |
| * Reconciliations of accounting records with physical inventory | * Review reconciliations performed and whether reviewed by independent person |
| **Accuracy, classification and valuation** | | |
| Inventory quantities have been accurately determined. | * Periodic or annual comparison of inventory with amounts shown in perpetual inventory records. | * Review and test entity’s procedures for taking physical inventory. |
| * Standard costs reviewed by management. | * Review and test entity’s procedures for developing standard costs. |
| * Review of cost accumulation and variance reports. | * Inspect variance reports produced |
| Inventory is properly stated at the lower of cost and net realisable value. | * Inventory managers review inventory regularly to identify slow-moving, obsolete and excess inventory. | * Discuss with inventory managers how this is done. * Observe the procedure being performed |
| **Cut-off** | | |
| All purchases and sales of inventory are recorded in the correct accounting period. | * All dispatch documents processed daily to record the dispatch of finished goods | * Inspect documentation to confirm daily processing. |
| * All goods inwards reports processed daily to record the receipt of inventory. | * Inspect documentation to confirm daily processing. |
| * Reconciliations of inventory records with general ledger. | * Review reconciliations performed. |
| **Presentation and disclosure assertions** | | |
| Inventory transactions and balances are properly identified and classified in the financial statements. | * Orders for materials and production data forms used to process goods through manufacturing. | * Review entity’s procedures and documentation used to classify inventory. |
| Disclosures relating to classification and valuation are sufficient. | * Approval by Finance Director | * Review entity’s working papers for evidence of review. |

**PAYROLL**

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| **Control Objective** | **Controls by Management** | **Test of Controls** | |
| **Occurrence & Existence** |  |  |
| Payment is made only to bona fide employees of the entity. | * Segregation of duties between HR and payroll functions * Personnel files held for all employees. * Authorisation procedures for hiring, terminating, time worked, wage rates, overtime, benefits etc. * Any changes in employment status of employees (eg maternity, special leave etc) informed to Human Resources department. * Use of time clocks to record time worked. * Clock cards approved by supervisor. * Only employees with valid employee numbers are paid. * Payroll budgets in place and reviewed by management. * Prenumbered clock cards in use. * Segregation of duties * Authorisation of wage cheque cashed * Custody of cash – Encashment of cheque – Security of pay packets – Security of transit – Security and prompt banking of unclaimed wages * Verification of identity * Recording of distributions * Preparation and authorisation of cheques and bank transfer lists * Comparison of cheques and bank transfer list with payroll * Maintenance and reconciliation of wages and salaries bank account * Preparation and authorisation of cheques and bank transfer lists * Comparison of cheques and bank transfer list with payroll * Maintenance and reconciliation of wages and salaries bank account | * Observe and evaluate proper segregation of duties. * Review a sample of starters and leavers in the year to ensure correct documentation is in place. * Review and test authorisation procedures in place. * Review policies and procedures in place for changing status and consider whether adequate. * Review personnel files for a sample of employees whose status changed in the year. * Observe employees’ use of time clocks. * Inspect a sample of clock cards for evidence of approval by appropriate level of management. * Review and test procedures for entering and removing employee numbers from the payroll master file. * Review budgeting procedures. Review numerical sequence of clock cards. * Observe and evaluate proper segregation of duties.   **If wages are paid in cash**   * Attend the pay-out of wages to confirm that the official procedures are being followed. * Before the wages are paid compare payroll with wage packets to ensure all employees have a wage packet. * Examine receipts given by employees; check unclaimed wages are recorded in unclaimed wages book. * Observe whether any employee receives more than one wage packet. * Inspect the unclaimed wages book entries with the entries on the payroll to ensure they agree. * Check that unclaimed wages are banked regularly by inspection of bank statements and supporting documentation. * Inspect that unclaimed wages books to check it shows reasons why wages are unclaimed. * Review pattern of unclaimed wages in unclaimed wages book; variations may indicate failure to record.   **Holiday pay**   * Verify a sample of payments with the underlying records and check the calculation of the amounts paid by recalculation. * For salaries, review whether comparisons are being made between payment records. * Examine paid cheques or a certified copy of the bank list for employees paid by cheque or bank transfer. |
| **Accuracy, classification and valuation** | | |
| All benefits and deductions (tax, pension etc) are computed correctly | * Verification of payroll amounts and benefit calculations. * Payroll budgets in place and reviewed by management. * Agreement of gross earnings and total tax deducted with taxation returns. | * Recalculate benefits and deductions for a sample of employees. * Review budgeting procedures * Inspect documentation for evidence of management's review. |
| Payroll transactions correctly recorded in the accounting system. | * Changes to master payroll file verified through ‘before and after’ reports. * Payroll master file reconciled to general ledger. | * Review reconciliation o ‘before and after’ reports to payroll master file. * Review reconciliation o payroll master file to general ledger. Confirm whether discrepancies are followed-up promptly and resolved. |
| **Cut-off** | | |
| Payroll transactions are recorded in the correct accounting period. | * All starters, leavers, changes to salaries and deductions are reported promptly to payroll department and changes are updated to the payroll master file promptly. | * Review entity’s procedures for reporting changes to the payroll department. * Check sample of starters and leavers. |
| **Presentation and disclosure assertions** | | |
| Payroll transactions are properly classified in the financial statements. | * Chart of accounts * Independent approval and review of accounts charged to payroll. * Payroll budgets in place and reviewed by management. | * Review chart of accounts. * Review procedures for classifying payroll costs. * Review budgeting procedures. |

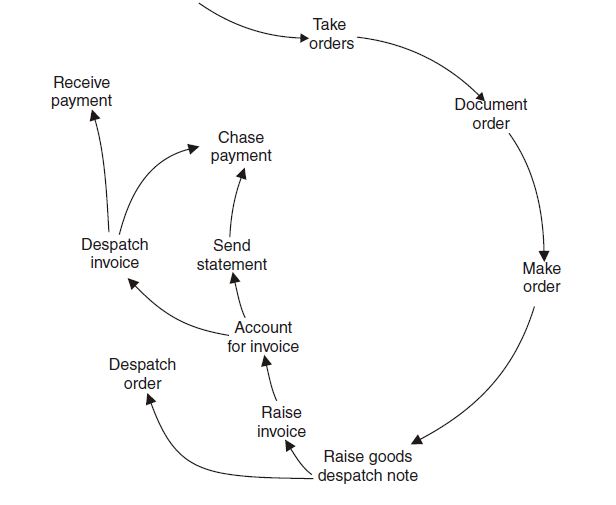
**Revenue and capital expenditure**

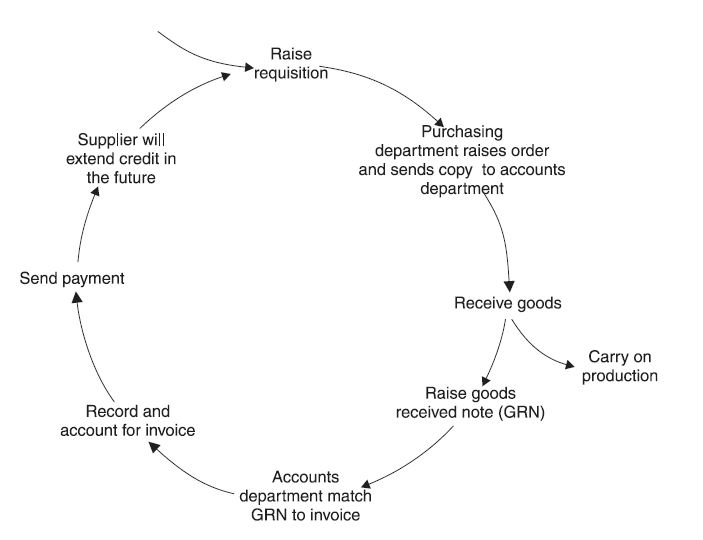
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| **Control Objective** | **Controls by Management** | **Test of Controls** | |
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| **Authorisation** | * All expenditure is authorised. * Orders for capital items should be authorised by appropriate levels of management * Order should be requisitioned on appropriate (different to revenue) documentation * Invoices should be approved by the person who authorised the order * Invoices should be marked with the appropriate general ledger code. | * Review policies and procedures in place. * Examine a sample of orders for appropriate authorisation. |
| **Completeness** | * All non-current assets are correctly recorded in the accounting system. * Capital items should be written up in the non-current asset register. * The non-current asset register should be reconciled regularly to the general ledger and any differences investigated and resolved promptly. | * Review reconciliation to ensure it is regularly carried out, reviewed by a more senior person, and that all discrepancies are followed up and resolved on a timely basis. |

**Cash and Bank (Payments)**

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| **Control Objective** | **Controls by Management** | **Test of Controls** | |
| **Occurrence** | | |
| Only valid cash payments are made. | * Segregation of duties | * Observe and evaluate proper segregation of duties. |
| * Supplier statements independently reviewed and reconciled to trade payable records. | * Review procedures for reconciling supplier statements |
| * Monthly bank reconciliations prepared and reviewed. | * Review reconciliations to confirm whether undertaken and reviewed. |
| * Only authorised staff can make electronic cash payments and issue cheques. | * Review delegated list of authority for cash payments |
| * Electronic cash payments and cheques prepared only after all source documents have been independently approved. | * Inspect relevant documentation for evidence of approval by senior personnel. |
| **Completeness** | | |
| All cash payments that occurred are recorded. | * Segregation of duties | * Observe and evaluate proper segregation |
| * Supplier statements independently reviewed and reconciled to trade payable records. | * Review procedures for reconciling supplier statements. |
| * Monthly bank reconciliations prepared and reviewed. | * Review reconciliations to confirm whether undertaken and independently reviewed. |
| * Review of cash payments by manager before release. | * Inspect sample of listings for evidence of senior review |
| * Daily cash payments reconciled to posting to payable accounts. | * Review a sample of reconciliations for evidence that they have been done. |
| * Use of prenumbered cheques. | * Examine evidence of use of prenumbering |
| **Accuracy, classification and valuation** | | |
| Cash payments recorded correctly in the ledger. | * Reconciliation of daily payments report to electronic cash payment transfers and cheques issued. * Supplier statements reconciled to payable accounts regularly. * Monthly bank reconciliations of bank statements to ledger account. | * Review reconciliation, to ensure performed, reviewed and any discrepancies followed up on a timely basis. * Review reconciliations for a sample of accounts. * Review bank reconciliation for evidence it was done and independently reviewed. |
| Cash payments posted to correct payable accounts and to the general ledger. | * Supplier statements reconciled to payable accounts regularly. | * Review reconciliations for a sample of accounts |
| * Agreement of monthly cash payments journal to general ledger posting. | * Review postings from journal to general ledger |
| * Payable accounts reconciled to general ledger control account | * Review reconciliation, to ensure performed, reviewed and any discrepancies followed up on a timely basis. |
| **Cut-off** | | |
| Cash payments are recorded in the correct accounting period. | * Reconciliation of electronic funds transfers and cheques issued with postings to cash payments journal and payable accounts | * Review reconciliation and check it is carried out regularly. |
| **Presentation and disclosure assertions** | | |
| Cash payments are charged to the correct accounts. | * Chart of accounts | * Review cash payments journal to assess reasonableness of charging of accounts. |
| * Independent approval and review of general ledger account assignment. | * Review assignment of general ledger account. |

**Sales Cycle**



**Purchases Cycle**